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Report Highlights:

In the first half-year of 2006, Hong Kong beef imports were valued at \$93 million, plus an additional \$87 million worth of variety meats, totaling \$180 million. During the same period, U.S. beef exports to Hong Kong amounted to \$5 million, compared to \$26 million in the corresponding period in 2003. However, U.S. chilled beef exports to Hong Kong for January – June 2006 were valued at \$3.7 million, very close to the level during the same period in 2003. U.S. beef exports to Hong Kong are expected to increase steadily in the second half of 2006 as more new plants become eligible to export to Hong Kong. While at the same time, stocks of Canadian beef in Hong Kong are being further depleted. In the first half year of 2006, Hong Kong imported \$196 million worth of pork. China is the leading pork supplier to Hong Kong, accounting for \$100 million in terms of value in the first six months of 2006 and occupying 51 percent of the market share. U.S. products have secured a solid niche market by supplying end users in the very upscale market at both the retail and HRI sectors. A major recent development in Hong Kong's pork market is the government's announcement to allow chilled pork imports from China effective August 2006. The impact is expected to be a gradual shifting in consumption from fresh pork to China's chilled pork because of a significant price difference. Given this expectation, the Hong Kong government's view is that now is the right time to introduce a pig farm license surrender scheme to cut local supplies of live pigs. The Hong Kong government hopes this plan will help to better control Hong Kong's environmental and pollution problems.

Includes PSD Changes: Yes

Includes Trade Matrix: No

Scheduled Report

Hong Kong [HK1]

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(Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psd>)

Situation and Outlook

Beef

In the first half-year of 2006, Hong Kong beef imports were valued at \$93 million, plus an additional \$87 million worth of variety meats, totaling \$180 million. Re-exports of beef and variety meats stood at 6 percent and 47 percent respectively during this period.

U.S. beef exports to Hong Kong have not recaptured the pre-ban market share six months after the lifting of the ban on December 29, 2005. U.S. beef occupied a market share of 37 percent during the first six months of 2003 compared to 5 percent during the same period in 2006. In terms of value, U.S. beef exports to Hong Kong in the first half-year of 2006 amounted to \$5 million, compared to \$26 million in the corresponding period in 2003. The pace of the U.S. recapturing the market has been slow because of limited U.S. beef supplies and acute competition with products from Canada. The number of U.S. plants eligible to export to Hong Kong remained at 15 for several months following the detection of bone fragments in 3 U.S. beef consignments originating from 3 different plants. Insisting a zero tolerance of bone fragments, the Hong Kong government delisted the three plants and refused to acknowledge new Export Verification (EV) approved plants for over 6 months from March to August 2006. Nonetheless, Hong Kong's imports of U.S. chilled beef have already reached to the pre-ban level of \$3.7 million.

Compared to the first half of 2006, U.S. beef exports to Hong Kong are expected to outperform in the second half of the year and in 2007 for a number of favorable reasons. First, beef supplies to Hong Kong should increase given that more U.S. plants are eligible to export to Hong Kong. Secondly, winter is the typical peak season for beef consumption. Thirdly, some major local beef importers started to place orders for U.S. beef after observing the import situation and prices for a few months. Most importantly, local importers report Canadian stocks on hand are mostly depleted.

Pork

In the first half year of 2006, Hong Kong imported \$196 million worth of pork, plus \$90 million of pork offal, totaling \$286 million. China is the leading pork supplier to Hong Kong, accounting for \$100 million and 51 percent of the market share. During the same period, the U.S. exported \$8 million worth of pork products to Hong Kong, securing a solid niche in the market.

Chilled Pork Arrives From China

Effective August 2006, Hong Kong allowed entry of chilled pork from China. Presently, there are four plants approved to export chilled pork products to Hong Kong. Pigs are sourced from designated farms in China that currently supply live pigs to Hong Kong. Each approved plant has a capacity to process 300 pigs daily. The maximum capacity of all four approved plants will be 1200 pigs, about 20 percent of the daily consumption of live pigs in Hong Kong. Initially, to test market demand when Hong Kong opened to China's chilled pork in August, about 200 pigs were slaughtered and exported to Hong Kong as chilled pork. The quantity of China's chilled pork exports to Hong Kong is expected to rise gradually.

It's expected Hong Kong consumers will be tempted to replace fresh pork with chilled pork, given that chilled pork prices are 30 percent lower than fresh pork. Hong Kong's pork

imports will likely rise steadily in the future in contrast to the decrease in production (pigs slaughtered in Hong Kong). As the change will not be significant initially, trade figures for 2007 will be more discernible than 2006.

Hong Kong Initiates License Surrender Scheme

Given the expectation that consumers will increasingly be more receptive to chilled pork at the expense of fresh pork, the Hong Kong government's view is that now is the right time to introduce a pig farm license surrender scheme to cut local supplies of live pigs. The Hong Kong Government hopes this plan will help to better control Hong Kong's environmental and pollution problems. Ex-gratia payments will be offered to farmers if they agree to stop their pig-farming operations. The scheme started in June 2006 and will last for one year. The government estimates that 70 percent of the licenses will be surrendered through the scheme. Presently, there are 265 pig farms in Hong Kong rearing about 330,000 pigs. These farms supply about 20 percent of the local fresh pork market.

Statistical Tables

PS&D Table

Hong Kong Commodity Meat, Beef and Veal (1000 MT CWE)(1000 HEAD)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Slaughter (Reference)	0	0	0	0	0	0	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	14	14	14	14	0	14	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	92	92	92	92	0	93	(1000 MT CWE)
TOTAL Imports	92	92	92	92	0	93	(1000 MT CWE)
TOTAL SUPPLY	106	106	106	106	0	107	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Exports	0	0	0	0	0	0	(1000 MT CWE)
Human Dom. Consumption	106	106	106	106	0	107	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	106	106	106	106	0	107	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	106	106	106	106	0	107	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	6	1	0	3	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Note: PS&D production figures include local and imported live cattle live cattle for slaughter. Import and export numbers are in carcass-weight-equivalent using a 1.36 conversion factor for all fresh/chilled and frozen beef and 1.79 for processed beef. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

Not official USDA Data

Table 1: Supply and Consumption of Live Cattle (head)

	2001	2002	2003	2004	2005	% change
Local Supply	148	138	79	118	123	4%
Imports	50,651	47,912	45,333	47,539	48,063	1%
Total	50,799	48,050	45,352	47,657	48,186	1%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

Table 2: Average Retail Prices of Beef Relative to Pork and Poultry (Freshly Slaughtered)

US\$/kg	2001	2002	2003	2004	2005	2006 (Jan – May)
Chicken (whole chicken)	\$4.60	\$4.58	\$4.22	\$5.60	5.55	6.15
Beef (best quality)	\$7.2	\$7.15	\$7.2	\$7.17	7.34	7.58
Beef (belly flesh)	\$5.3	\$5.35	\$5.45	\$5.47	5.56	5.75
Pork (best cut)	\$4.54	\$4.26	\$4.10	\$4.03	4.27	4.31
Pork Chop	\$5.58	\$5.18	\$4.89	\$4.82	5.06	5.05

Source: Hong Kong Census & Statistics Department
Exchange Rate: US\$1=HK\$7.75

Table 3: Average Retail Prices of Beef Relative to Pork and Chicken (Frozen)

Product Categories	Origin	Retail Price
Beef		
Prime *	U.S.	HK\$263/lb
Angus*	U.S.	HK\$273/lb
Prime*	Canada	HK\$236/lb
Prime*	Australia	HK\$173/lb
CAB Tenderloin	Canada	HK\$128.00 /lb
CAB Rib Eye	Canada	HK\$128.00/lb
CAB Striploin	Canada	HK\$80/lb
Tenderloin	New Zealand	HK\$48/lb
Sirloin (P.S.)	New Zealand	HK\$38/lb
Rib Eye (P.S.)	New Zealand	HK\$48/lb
Rib Finger	Canada	HK\$24/lb
Boneless Shortrib (CAB)	Canada	HK\$52/lb
Knuckles	Brazil	HK\$16/lb
Pork		
Bone-in pork chop	Brazil	HK\$17.60/lb
Sparerib	Brazil	HK\$17.60/lb
Butt	Brazil	HK\$19.60/lb

Chicken		
Mid-joint wings	U.S.A.	HK\$45.00/4 lbs
Legs	U.S.A.	HK\$8.00/lb
Whole Wing	Brazil	HK\$50.00/5 lbs
Boneless Leg (Skin-on)	China	HK\$50.00/2 kg
Boneless Breast (Skin-off)	China	HK\$50.00/2 Kg
Whole Chicken (1600 gm)	Brazil	HK\$30.00 each
Whole Chicken (800 gm)	Brazil	HK\$16.00 each

Source: A retailer

*: prices are quoted from a high-end retail outlet

Table 4: Average Wholesale Prices of Live Cattle

US\$/MT	2001	2002	2003	2004	2005	Jan – May 2006
Live Cattle	2,356	2,360	2,449	2,402	2,679	2,749

Source: Hong Kong Census & Statistics Department

Table 5: Hong Kong Chilled Beef Imports in Value, Jan – Jun

Country	Millions of US Dollars				Market Share			% change	
	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World	10.43	11.78	15.54	19.32	100%	100%	100%	85%	24%
Australia	3.41	7.44	9.53	8.95	33%	61%	46%	162%	-6%
U.S.	3.76	0.2	0.06	3.73	36%	0%	19%	-1%	5851%
N. Zealand	2.17	3.26	3.23	3.12	21%	21%	16%	44%	-3%
Canada	0.23	0.05	1.82	1.8	2%	12%	9%	684%	-1%
Others	0.86	0.83	0.9	1.72	8%	6%	9%	100%	91%

Table 6: Hong Kong Chilled Beef Imports in Volume, Jan – Jun

Country	Unit : MT				Market Share			% change	
	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World	1,735	1,357	1,522	1,879	100%	100%	100%	8%	23%
Australia	564	766	786	748	33%	52%	40%	33%	-5%
N. Zealand	347	401	407	393	20%	27%	21%	13%	-4%
Brazil	39	94	52	305	2%	3%	16%	692%	484%
U.S.	252	11	2	195	15%	0%	10%	-22%	7904%
Argentina	31	70	123	115	2%	8%	6%	270%	-6%
Canada	17	2	131	103	1%	9%	5%	496%	-21%
Others	485	13	21	20	28%	1%	1%	-96%	-5%

Table 7: Average Import Prices of Chilled Beef, Jan - Jun

US/kg				
chilled beef	2003	2004	2005	2006
The World	6.01	9	10.21	10.28
Australia	6.05	10	12	11.97
New Zealand	6.25	8.12	7.93	7.94
United States	14.95	17.72	25.72	19.12
Canada	13	19.58	13.93	17.49

Table 8: Hong Kong Frozen Beef Imports in Value, Jan – Jun

Country	Millions of US Dollars				Market Share			% change	
	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World-	52	54	48	62	100%	100%	100%	18%	30%
Brazil	13	23	19	29	25%	40%	47%	123%	52%
Canada	0	2	13	12	1%	27%	19%	4072%	-4%
China	5	8	6	8	10%	13%	13%	55%	30%
N. Zealand	6	6	3	5	12%	7%	8%	-13%	58%
Australia	1	2	2	2	3%	4%	3%	76%	44%
Argentina	3	7	4	2	5%	7%	3%	-19%	-36%
U.S.	22	4	0	1	42%	0%	2%	-93%	748%
Others	2	2	1	3	4%	2%	5%	50%	200%

Table 9: Hong Kong Frozen Beef Imports in Volume, Jan – Jun

Unit : MT					Market Share			% change	
Country	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World	23,120	24,607	20,368	23,566	100%	100%	100%	2%	16%
Brazil	8,515	11,772	9,653	11,929	37%	47%	51%	40%	24%
Canada	68	840	3,828	3,777	0%	19%	16%	5444%	-1%
China	3,452	5,041	3,550	4,510	15%	17%	19%	31%	27%
N. Zealand	1,621	1,232	654	940	7%	3%	4%	-42%	44%
Australia	314	283	279	674	1%	1%	3%	115%	141%
Argentina	1,981	3,785	2,129	1,054	9%	10%	4%	-47%	-50%
U.S.	6,300	852	33	229	27%	0%	1%	-96%	601%
Others	869	802	242	453	4%	3%	2%	-48%	87%

Table 10: Average Import Prices of Frozen Beef, Jan - Jun

US/kg				
Frozen beef	2003	2004	2005	2006
The World	2.26	2.19	2.34	2.62
Brazil	1.53	1.98	1.98	2.43
Canada	4.34	2.09	3.35	3.26
China	1.48	1.66	1.72	1.76
New Zealand	3.82	5.15	5.18	5.71
Australia	4.34	5.47	5.98	3.56
United States	3.52	4.73	5.34	6.46

Table 11: Hong Kong Beef Imports in Value, Jan – Jun

Country	Millions of US Dollars				Market Share			% change	
	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World	72	73	76	93	100%	100%	100%	29%	23%
Brazil	13	24	20	31	18%	27%	33%	132%	52%
Canada	1	2	16	15	1%	21%	16%	2643%	-8%
China	12	13	13	14	17%	17%	15%	14%	11%
Australia	5	9	12	12	7%	15%	13%	138%	1%
N. Zealand	8	10	7	9	12%	9%	10%	2%	28%
U.S	26	4	0	5	37%	0%	5%	-80%	1943%
Argentina	3	8	4	3	5%	6%	3%	-20%	-40%
Others	4	3	4	4	6%	5%	4%	0%	0%

Table 12: Hong Kong Beef Imports in Quantity, Jan – Jun

Country	Unit : MT				Market Share			% change	
	2003	2004	2005	2006	2003	2005	2006	06/03	06/05
The World	30,324	30,735	29,516	32,302	100%	100%	100%	7%	9%
Brazil	8,629	11,961	10,390	12,725	28%	35%	39%	47%	22%
China	7,263	7,854	6,683	7,235	24%	23%	22%	0%	8%
Canada	89	868	5,172	4,498	0%	18%	14%	4963%	-13%
India	504	245	1,143	1,641	2%	4%	5%	225%	44%
Australia	900	1,095	1,153	1,507	3%	4%	5%	68%	31%
N. Zealand	1,968	1,651	1,080	1,350	6%	4%	4%	-31%	25%
Argentina	2,473	4,262	2,657	1,198	8%	9%	4%	-52%	-55%
U.S	6,671	923	41	478	22%	0%	1%	-93%	1069%
Others	1,827	1,876	1,197	1,670	6%	4%	5%	-9%	40%

Table 13: Hong Kong Beef Re-exports, Jan – Jun

Country	2003	2004	2005	2006	% change
-					
The World-	4,842	2,343	3,280	2,064	-37%
Taiwan	0	0	1,111	1,543	39%
Macau	294	753	818	401	-51%
China	4,533	1,428	654	96	-85%
Others	15	162	697	24	-97%

Table 14: Hong Kong Variety Beef Imports in Value, Jan – Jun

Millions of US Dollars

Country	-	2003	2004	2005	2006	% change
The World		58	64	65	87	34%
Brazil		28	38	42	59	40%
Argentina		7	14	14	11	-21%
Australia		3	3	4	8	100%
United States		13	2	0	0	--
Others		7	7	5	9	80%

Table 15: Hong Kong Variety Beef Re-exports

Millions of US Dollars

Country	Jan-Jun 03	Jan-Jun 04	Jan-Jun 05	Jan-Jun 06	% change
The World	53.53	36.01	11.17	35.87	221%
Taiwan	0.09	0	6.01	30.68	410%
China	53.15	22.43	4.25	4.76	12%
Macau	0.26	0.65	0.77	0.39	-49%
Others	0.03	12.93	0.14	0.04	-71%

Table 16: Hong Kong Beef Imports, Jan – Jun

	2003	2004	2005	2006	% change
Beef	30,324	30,735	29,516	32,302	9%
chilled beef	1,735	1,357	1,522	1,879	23%
frozen beef	23,120	24,607	20,368	23,566	16%
processed beef	5,469	4,770	7,625	6,857	-10%
Variety Beef	51,089	46,635	57,619	68,613	19%

Table 17: Hong Kong Beef Re-exports by Category, Jan - Jun

	2,003	2,004	2,005	2,006	% change	% of Imports
Beef	4,842	2,343	3,280	2,064	-37%	6%
chilled beef	54	7	260	3	-99%	0%
frozen beef	3,692	1,613	2,246	1,858	-17%	8%
processed beef	1,097	724	774	203	-74%	3%
Variety Beef	44,682	25,308	11,175	31,974	186%	47%

Table 18: Hong Kong Retained Beef Imports, Jan – Jun

	2,003	2,004	2,005	2,006	% change	% of Imports
Beef	25,481	28,392	26,235	30,237	15%	94%
chilled beef	1,681	1,351	1,262	1,876	49%	100%
frozen beef	19,428	22,994	18,122	21,708	20%	92%
processed beef	4,372	4,046	6,852	6,654	-3%	97%
Variety Beef	6,407	21,327	46,445	36,639	-21%	53%

Source: Hong Kong Census & Statistics Department

Statistical Table – Meat, Swine

PS&D Table

Hong Kong Commodity Meat, Swine (1000 MT CWE)(1000 HEAD)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Slaughter (Reference)	0	0	0	0	0	0	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	148	148	141	146	0	139	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	305	304	313	310	0	317	(1000 MT CWE)
TOTAL Imports	305	304	313	310	0	317	(1000 MT CWE)
TOTAL SUPPLY	453	452	454	456	0	456	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Exports	0	0	0	0	0	0	(1000 MT CWE)
Human Dom. Consumption	453	452	454	456	0	456	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	453	452	454	456	0	456	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	453	452	454	456	0	456	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	5	5	5	6	0	6	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

Note: PS&D production figures include local and imported pigs slaughtered in Hong Kong. All numbers used in the PS&D table are in carcass-weight equivalent (CWE), using a conversion factor of 1.51. Imports are calculated as Imports minus Re-exports. Exports are calculated as Exports minus Re-exports.

Not official USDA Data

Table 19: Supply and Consumption of Live Pigs (head)

	2002	2003	2004	2005	% change
Local Supply	444,300	390,900	380,850	377,000	-1%
Imports	1,733,020	1,767,538	1,870,365	1,674,343	-10%
Total	2,177,320	2,158,438	2,251,215	2,051,343	-9%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

Table 20: Average Wholesale Prices of Live Pigs (head)

US\$/MT	2002	2003	2004	2005	2006 Jan – May
Live Pigs	1,628	1,620	1,712	1,800	1,828

Exchange Rate: US\$1.00 = HK\$7.78

Source: Hong Kong Census & Statistics Department

Table 21: Hong Kong Pork Imports in Value by Supplies, \$ million, Jan – Jun

Country	Millions of US Dollars			% Share		% Change	
	2,004	2005	2006	2004	2005	2006 - 06/05	-
--The World	195.75	201.03	195.59	100%	100%	100%	97%
China	96.93	94.17	99.98	50%	47%	51%	106%
Brazil	35.42	46.68	46.29	18%	23%	24%	99%
United States	7.21	6.4	7.71	4%	3%	4%	120%
Thailand	6.59	8.88	6.98	3%	4%	4%	79%
Vietnam	12.7	13.72	6.41	6%	7%	3%	47%
Germany	7.92	4.29	4.92	4%	2%	3%	115%
Netherlands	9.23	6.8	4.46	5%	3%	2%	66%
Others	19.75	20.09	18.84	10%	10%	10%	94%

Table 21: Hong Kong Pork Imports in Volume by Supplies, MT, Jan – Jun

Country				% Change	Market Share		
	MT, 2004	MT, 2005	MT, 2006		2004	2005	2006
--The World--	144,255	121,793	123,650	2%	100%	100%	100%
China	63,665	54,551	62,136	14%	44%	45%	50%
Brazil	23,930	24,041	26,111	9%	17%	20%	21%
Germany	12,472	6,285	6,075	-3%	9%	5%	5%
Netherlands	9,373	6,438	4,256	-34%	6%	5%	3%
Spain	2,435	5,389	4,082	-24%	2%	4%	3%
Vietnam	8,017	6,309	3,905	-38%	6%	5%	3%
United States	3,718	2,640	3,456	31%	3%	2%	3%
Others	20,645	16,140	13,629	-16%	14%	13%	11%

Table 22: Hong Kong Average Pork Prices, \$/kg

Country	- / KG - 2004	- / KG - 2005	- / KG - 2006	% Change - 06/05 -
--The World--	1.36	1.65	1.58	-4.24
China	1.52	1.73	1.61	-6.94
Brazil	1.48	1.94	1.77	-8.76
Germany	0.64	0.68	0.81	19.12
Netherlands	0.99	1.06	1.05	-0.94
Spain	0.88	0.81	0.88	8.64
Vietnam	1.58	2.17	1.64	-24.42
United States	1.94	2.43	2.23	-8.23

Table 23: Hong Kong's Imports of Pork by Categories, Jan - Jun

	MT				Million of US\$			
	2004	2005	2006	% change	2004	2005	2006	% change
Pork	144,255	121,793	123,650	2%	196	201	196	-3%
chilled pork	1,854	2,609	2,198	-16%	5	7	6	-17%
frozen pork	107,097	82,886	84,838	2%	138	136	129	-5%
processed pork	35,304	36,297	36,613	1%	54	58	61	4%
Variety meats, pork	101,884	68,635	82,236	20%	95	63	90	43%

Table 24: Hong Kong's Re-exports of Pork by Categories, Jan - Jun

	MT		
	2005	2006	% change
Pork	14,639	16,128	10%
chilled pork	10	0	-97%
frozen pork	10,412	11,521	11%
processed pork	4,217	4,606	9%
Variety meats, pork	21,316	22,253	4%

Table 25: Hong Kong's Retained Imports of Pork, Jan – Jun

	MT		
	2005	2006	% change
Pork	107,154	107,522	0%
chilled pork	2,599	2,198	-15%
frozen pork	72,475	73,317	1%
processed pork	32,080	32,007	0%
Variety meats, pork	47,319	59,984	27%

Table 26: Hong Kong's Re-exports of Pork, Jan – Jun

Country	2004	2005	2006	% Change
				- 06/05 -
--The World--	37,179	14,639	16,128	10%
Taiwan	0	8,492	8,410	-1%
China	34,853	3,018	5,434	80%
Macau	2,270	2,316	2,205	-5%
Others	56	813	79	-90%

Table 27: Hong Kong Pork Offal Imports by Major Suppliers, Jan – Jun

Country	Millions of US Dollars			% Share		% Change	
	2004	2005	2006	2004	2005	2006 - 06/05 -	
--The World--	94.57	63.06	90.17	100%	100%	100%	43%
United States	21.99	3.85	17.3	23%	6%	19%	349%
Netherlands	12.92	13.65	13.78	14%	22%	15%	1%
Brazil	4.49	6.49	13.04	5%	10%	14%	101%
Germany	9.96	12.72	12.45	11%	20%	14%	-2%
Denmark	21.84	11.18	10.54	23%	18%	12%	-6%
Canada	10.5	1.82	4.3	11%	3%	5%	136%
Others	12.87	13.35	18.76	14%	21%	21%	41%

Table 28: Hong Kong's Pork Imports from the U.S. , US\$ million, Jan - Jun

Description	2004	2005	2006	% Share		% Change	
				2004	2005	2006 - 06/05 -	
United States	7.21	6.40	7.71	3.68	3.19	3.94	20.41
Pork	7.21	6.40	7.71	100	100	100	20.41
processed pork	4.82	4.51	5.64	66.91	70.44	73.15	25.04
frozen pork	2.25	1.81	1.88	31.27	28.21	24.41	4.21
chilled pork	0.13	0.09	0.19	1.82	1.35	2.43	117.29

Source: Hong Kong Census & Statistics Department

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Production

Hong Kong Government Introduces Pig Farm License Surrender Scheme

The Hong Kong government has implemented a license-surrender scheme to reduce the number of pig farms in Hong Kong. In addition, the government is considering introducing legislation to stop issuing new pig farm licenses. The government explained that this measure is to reduce associated public health and environmental pollution problems in Hong Kong.

Given the rapid urbanization of Hong Kong, the government views pig farming operations, primarily located in the New Territories Region of Hong Kong, to generate considerable public health and environmental pollution problems. According to the Hong Kong government, pig farms generate an estimated 520 tonnes of excrement each day. Part of the excrement is disposed of as solid waste. As a licensing condition, farms are required to install waste treatment facilities to properly treat farm wastewater to a specified standard before discharge. Nevertheless, indiscriminate discharge of waste from pig farms remains one of the main causes of pollution to streams and rivers. Indiscriminate dumping of dead pigs is another environmental problem. Pigs are also a main amplifying host for Japanese encephalitis. Because of the close proximity of pig farms to residential areas in Hong Kong, the government considers it desirable to reduce the number of pig farms in Hong Kong.

Presently, there are 265 pig farms in Hong Kong rearing about 330,000 pigs. These farms supply about 20 percent of the local fresh pork market. The actual total rearing capacity is about 430,000 pigs. The voluntary surrender scheme started on June 1, 2006 and will last for 12 months. Under the incentive package, which amounts to a total expenditure of HK\$941 million (US\$121 million), ex-gratia payment (EGP) will be provided to pig farm licenses who choose to surrender their licenses and cease pig farming permanently. The compensation calculation is based on farm operation and size. The minimum EGP the pig farmers can get is HK\$450,000 (US\$58,064) while the highest is HK\$25.45 million (US\$3.28 million).

The scheme also provides monetary compensation to pig farm workers and pig transport workers.

People in the industry are inclined to return their licenses to the government, given the gloomy prospect of pig farming in Hong Kong. Licensing requirements are stringent and operation costs are expensive to fulfill all the government requirements. Consumers are also increasingly more receptive to consuming chilled/frozen meats. The government expects 70 percent of the licenses will be voluntarily surrendered by the end of the deadline.

Forecast

The 2005 Hong Kong's self-sufficiency ratio of live pigs was 22 percent. A reduction in local supplies of live pigs in the future, resulting from the license surrender scheme, will cause the self-sufficiency ratio to start declining in 2007. To a certain extent, imports of live pigs are expected to increase to compensate for the reduction of local supplies. However, part of the reduction is expected to be replaced with chilled pork from China.

Hong Kong's production of pigs is expected to decline by 1 percent in 2006 and by at least another 4 percent in 2007. The main reason is that Hong Kong's consumption pattern is expected to gradually shift from freshly slaughtered pork to chilled/frozen pork. Effective

August, 2006, Hong Kong allows imports of chilled pork from China. Given the price disparity between chilled pork and fresh pork, Hong Kong consumers are expected to gradually replace fresh pork with chilled pork, as the case with poultry. Hong Kong started importing chilled whole chickens from China in December 2002 after reaching an inspection protocol between the two governments. Since then, Hong Kong consumers have gradually substituted freshly slaughtered chickens with chilled chickens due to price consideration. Between 2002 and 2005, Hong Kong's imports of chilled chicken increased 5,050 percent from 668 MT in 2002 to 34,408 MT in 2005. In contrast, live chicken supplies declined over 36 percent in 3 years.

Cattle production had no significant changes since our last GAIN report (HK#6002). Hong Kong's supply of live cattle relies entirely on imports from China.

Consumption

Hong Kong Allows Chilled Pork Imports From China

The Hong Kong government recently revealed that after over 2 years of negotiations with China on importation requirements of chilled pork from China, Hong Kong imported their first shipment in August 2006.

Hong Kong consumption demands require the slaughter of about 6,000 live pigs daily. Presently, only 4 plants are eligible to export chilled pork to Hong Kong. The total processing capacity is 1,200 pigs daily, with each plant capable at processing 300 head. When these plants are supplying at their maximum capacity to Hong Kong, 20 percent of fresh pork is replaced. On the first few days of the start up, only 150 pigs were slaughtered and exported to Hong Kong as chilled pork. Now daily slaughtering volume has increased slightly to about 200 or less. Retail prices are about 30 percent lower than fresh pork. Fresh pork is priced about HK\$22/catty, (US\$ 4.70/Kg). Given the significant price disparity between fresh and chilled pork, it is expected consumers will gradually replace fresh pork with chilled pork. Industry contacts report they expect that in 2 to 3 years' time, the market share of China's chilled pork will replace at least 30 percent of the fresh pork market.

In the first six months, Thailand was the leading supplier of chilled pork for Hong Kong, representing a market share of 94 percent. China's chilled pork is expected to dominate the market in the near future.

Despite competitive prices of chilled pork from China, some consumers still have a concern for food safety of meats from China. Just a day before the first consignment of chilled pork reached Hong Kong, the Chinese authority suspended the license of one of the four approved China slaughtering plants, amid media reports of unsavory conditions and the use of rusty blades for butchering. To address consumer safety concerns, a major Hong Kong supermarket chain spokesperson emphasized that each package has included plant name and slaughter date so that traceability can be assured. The suggested "use by" date is within 4 days after slaughter date.

The Hong Kong government is well aware of Hong Kong consumers and legislators' concern for food safety. Arrangements have been made between the Hong Kong government and Chinese authorities requiring chilled pork from China be supplied only by authorized pig farms. Pork from these supplying farms must meet the inspection and quarantine requirements of Hong Kong.

Beef Consumption

Hong Kong resumed beef imports from the U.S. after December 29, 2005. Some upscale steak houses and hotels have now included U.S. beef on their menus. Initially, some restaurants were not certain if U.S. beef supplies would be adequate and consistent, therefore they did not switch back to U.S. beef right after trade resumed. In addition, the high prices of U.S. beef are also a hindrance. When more U.S. plants become eligible to export to Hong Kong and supplies are seen as more reliable, increasingly more restaurants will start to provide U.S. beef.

On the retail side, U.S. beef is available in upscale retail shops. Despite higher prices of U.S. beef compared to beef from Canada and Australia, up-scale retailers commented that sales of U.S. beef are now better than beef sales from Canada and Australia. While some consumers are price conscious, many have a special preference for U.S. beef because of its quality.

Retail Prices of Beef in an upscale supermarket, Aug 2006

US\$=HK\$7.75

	U.S.	Canada	Australia
Prime	HK\$58/100 gm	HK\$52/100 gm	HK\$38/100 gm
Angus	HK\$60/100 gm		

Trade*Hong Kong's Beef Market Size*

For the first half year of 2006, Hong Kong's beef import market was valued at \$93 million, plus \$87 million worth of variety beef imports. Compared to the same period in 2005, Hong Kong increased its beef imports by 23 percent and 9 percent in terms of value and volume respectively (Tables 11 & 12), with average prices surging by 12 percent. Hong Kong is a mature market and domestic demand is rather stable. Imports are expected to remain flat at around 92,000 MT in 2006 and 2007, when the re-export factor is disregarded. While the overall market is stable, as indicated in the following, the market share of individual supplying countries does change greatly over the years.

U.S. Beef Exports to Hong Kong and Market Competition

Hong Kong banned imports of U.S. beef on December 24, 2003. The ban was lifted effective December 29, 2005. Products now allowed include boneless beef from cattle less than 30 months of age from establishments which have been certified by Agricultural Marketing Service (AMS) that they have complied with USDA Export Verification (EV) Program for Hong Kong.

The U.S. was the leading supplier of beef for Hong Kong, occupying a market share of 37 percent (Table 11) in January – June 2003. With the re-opening of the market in 2006, the U.S. has been able to gain its market share to 5 percent, based on January to June trade figures. The pace of market expansion for U.S. beef has been slow. U.S. market share is far behind the 37 percent in 2003. Nonetheless, U.S. chilled beef exports to Hong Kong amounted to \$3.7 million between January – June 2006, which was very close to the import level of the corresponding period in 2003. Yet Hong Kong's imports of U.S. chilled beef has not been able to regain the share as in 2003.

There are a number of reasons that explain why U.S. beef could not expand market share quickly in the first half year of 2006. These factors will continue to be challenges for U.S. products in the coming months as well.

First, the number of U.S. plants eligible to export to Hong Kong remained at 15 for between March and August following the detection of bone fragments in 3 U.S. beef consignments originating from 3 different plants. The Hong Kong government delisted the three plants and refused to acknowledge new Export Verification approved plants since then. After lengthy discussions, the Hong Kong government relisted the three plants and agreed to accept new plants in late August. The limited number of plants eligible to export to Hong Kong deters the expansion of U.S. beef market share in Hong Kong.

Second, the Hong Kong government insists on the zero tolerance of bone fragments despite recognizing that it is a quality issue rather than a food safety issue. The stringent measure of delisting the plant if a bone fragment is found has negatively affected importers' intention to buy U.S. beef. Due to this stringent policy, supply may not always be guaranteed and could be interrupted if a bone fragment is found in a shipment. Many restaurants are still very reluctant to shift to U.S. beef. Reportedly, they do not feel comfortable switching their menu to U.S. beef, realizing that once U.S. beef is on the menu, they may face unreliable supply of beef and it is impracticable to switch menus often.

Third, the keen competition of supplies from other countries, particularly Canada and Australia, is a key challenge for U.S. beef to reestablish its strong foothold in the Hong Kong market. Although Canadian beef prices are high, supply is stable and reliable. Importers have made the adjustments to Canadian beef, now one year in the market when U.S. beef was absent. The long absence of U.S. beef allowed Hong Kong importers to establish long lasting business relationship with Canadian beef exporters. Nonetheless, Canada is not supplying large quantity of prime beef to Hong Kong. It largely supplies Certified Angus Beef (CAB). Australian grain-fed beef is also a key competitor of U.S. products. Grain-fed beef ranging from 100 – 250 days are available in Hong Kong. The best-sold Australian beef grade in Hong Kong is 100-150 days grain-fed (equivalent to Canadian Choice Grade). Hotels tend to use grain-fed beef 150 days or over. Australia is the leading supplier of chilled beef with imports amounting to \$9 million in the first half year of 2006 (Table 5).

Fourth, price competition is the biggest concern for importers. They foresee that U.S. beef prices will be further pushed up now that the Japan market is open and U.S. beef will be much sought after.

Favorable Reasons Supporting the Growth of U.S. Beef Exports to Hong Kong

U.S. beef is expected to gradually expand its market share particularly in the latter half of the year. This is when the number of plants eligible to ship to Hong Kong is expected to increase and beef consumption peak season begins. The number of plants eligible to ship to Hong Kong has already risen from 15 to 22 within a week after Hong Kong started to acknowledge the new eligible plants. Some of the additional new plants are the key suppliers of Hong Kong major meat importers. These meat importers have generally taken a wait and see attitude when U.S. beef exports to Hong Kong was initially resumed. They have now started to place orders and it is believed that they will gradually increase their import volume. Also, winter is the typical peak season for beef consumption. Apart from the traditional popular sales items such as ribeye, sirloin, and tenderloin, more and more sea shipments on rib fingers, boneless shortrib, short plate will arrive in Hong Kong from the U.S. These U.S. products should have a competitive edge because Hong Kong consumers highly regard U.S. beef products both in terms of quality and safety. Finally, stocks in Hong Kong of Canadian beef are now almost depleted.

U.S. Pork Exports to Hong Kong and Market Competition

China is the leading pork supplier to Hong Kong followed by Brazil. In the first half year of 2006, Hong Kong imported \$196 million of pork. China accounted for \$100 million of that amount and occupied 51 percent of the market share. Given that Hong Kong has allowed chilled pork imports from China and consumers are expected to increasingly become accustomed to consuming chilled/frozen meats because of a gradual change in culinary habits, Hong Kong's pork imports are expected to increase gradually in the future. However, the impact will only be slightly felt in 2006 figures. When re-exports are excluded, Hong Kong's pork imports for 2006 are expected to rise 1 percent reaching 310,000 MT.

The most popular cuts of China's pork include pork loin, belly and pork shoulder. Pork butt is in great demand for preparing roast pork, which is a very popular Chinese dish. Brazilian pork cuts are normally supplied to restaurants and fast food chains.

In contrast, U.S. products have secured a solid niche market by supplying to end users in the very upscale market at both retail and HRI sectors. U.S. pork is very expensive compared to products from other countries. The average C.I.F. price of U.S. chilled pork is \$8/kg compared to \$7/kg from Australia. Between January – June 2006, U.S. exported \$7.71 million worth of pork products to Hong Kong with the biggest category demand for processed pork, amounting to 5.64 million.

Hong Kong Meat Re-exports

Compared to Hong Kong's beef and pork imports of \$93 million and \$196 million respectively, Hong Kong imported \$87 million of beef offal and \$90 million of pork offal in January – June, 2006. Unlike beef and pork imports, offal imports have a higher percentage being re-exported. (6%, 47%, 13% and 27% of beef, beef offal, pork and pork offal imports are re-exported through Hong Kong.)

Effective November 1, 2004, Hong Kong's meat re-exports to China is subject to compulsory pre-inspection by China Inspection Co. (CIC) in Hong Kong. The compulsory inspection service provided by CIC costs HK\$1,300 (US\$1=HK\$7.75) per container. Inspection processes will cause an additional cost of HK\$4,000 inclusive of inspection and transport cost. According to information provided by CIC, they inspected 4,441 containers of frozen meats in 2005 and 2,125 of which came from the U.S. These numbers are very close to Hong Kong meat re-export figures to China.

Hong Kong Meat Re-exports to China, 2005

	From the World		From the U.S.	
	MT	Containers	MT	Containers
Poultry	105,503	3,768	41,974	1,825
Beef & Offals	6,494	232	98	4
Pork & Offals	25,962	927	4,897	213
		4,927		2,042

Note: The number of containers is based on the calculation that a U.S. container carries an average of 23 MT of frozen meat whereas one from other countries, where container weight control is not as stringent, may load an average of 28 MT of products.

Source: Hong Kong Census & Statistics Department

The additional cost associated with the compulsory pre-inspection service is an incentive that drives direct shipments from the U.S. to North China. It is expected that the trend of direct shipments will continue, particularly to northern ports in China.

Also, Hong Kong meat imports are very often re-exported to China through a third place, particularly for products which are not allowed into China. It is worth noting that Taiwan has become the largest re-export market for Hong Kong's meat re-exports (table 13 & 26). Most of the products re-exported to Taiwan may very well end up in China.

Hong Kong meat re-exports to China are handled by transport companies. The transport cost depends very much on the value of products. Market prices range from RMB 2,600/MT to RMB 3,000/MT. Transport costs usually will be lower if consignments are accompanied with full set of documentation.

Policy

Food Business (Amendment) Regulation

Hong Kong started allowing entry of chilled pork imports from China beginning on August 15, 2006. It has been envisaged that unscrupulous retailers would sell chilled meat as fresh meat as the latter is more expensive. To discourage such malpractice, the Hong Kong government amended the existing Food Business Regulation to make the mixing of chilled pork and fresh pork difficult. Under the amended Regulation which took effect on August 18, 2006, the sale of fresh and chilled beef, mutton or pork in the same fresh provision shop or market stall will be prohibited unless the chilled beef, mutton or pork is pre-packaged and the package is labeled in the prescribed manner. Information required on the label include slaughtering date and name and address of slaughtering plants.

Because of the amended regulation, Hong Kong importers may ask U.S. suppliers to provide the slaughtering date so that Hong Kong retailers can comply by providing the required information on retail packages. U.S. beef exports already have slaughter date provided on health certificates. U.S. exporters of chilled pork for retail sales could be asked to provide slaughter date if their chilled pork products are sold in the same premises with fresh pork.

Meat imports from countries such as the U.S., Australia, Canada, New Zealand, are vacuum packed and could have a longer shelf life compared to chilled meats originating from China, which have not been vacuum packed. If slaughter dates are shown on retail packages, there is a concern some consumers may reach a conclusion that meats from the U.S. and other countries may be less "fresh" than meats from China because of earlier slaughter dates.

The new regulation has been in place for only a few weeks. It has been observed that in major retail outlets, chilled pork from China are packaged and labeled in the prescribed manner, while meats from the U.S. and other countries are not labeled with slaughter dates.

For details, please refer to HK6018

Reorganized Center for Food Safety

The Hong Kong government set up a Center for Food Safety under the Hong Kong Food and Environmental Hygiene Department (FEHD) in May 2006. The Center is the food regulatory authority in Hong Kong. It is responsible to enforce regulations on food import and export and implements policies on food safety control. Actually, the Center has been transformed

from a division, namely, Food and Public Health, under FEHD. There are not any significant changes between the two except in name.